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Brazil's Financial Situation

Brasilia has faced persistent cash problems throughout the year.

-- Although bankers provided $2.5 billion in new money early in the year, they since have suspended further disbursements and have failed to restore short-term credits to past levels.

-- Brasilia was cut off from additional IMF funds because of its failure to comply with the stabilization program.

-- Capital flight and a weak export recovery have also heightened cash problems.

Stopgap measures have been necessary to avert a default, while Brasilia tries to resolve its pressing financial problems.

-- Brasilia has resorted to commercial arrearages--now an estimated $2 billion--and short-term bridge loans to avoid suspending payments.

-- The Brazilians have agreed in principle to a revised IMF program, although new funds will not be forthcoming until October.

-- The government is pressing commercial banks to resume new lending and organize another $3-4 billion loan necessary to cover the foreign financing gap.

-- Brasilia has approached the Paris Club to reschedule official loans.

-- With these moves underway, we believe Brasilia will continue to resist growing domestic pressure for a moratorium.

If the revised adjustment program works as planned, Brazil's financial difficulties should ease next year.

-- Economic retrenchments will reduce the current account deficit to a manageable $6 billion in 1984.

-- Bankers are considering some $6 billion in new loans for next year, an amount which should cover new financing requirements and augment international reserves.

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-- A rescheduling of commercial and official loans will improve the debt maturity profile.

Despite these plans, we and the Embassy believe Brazil's payments position will remain precarious for the next several months.

-- A political backlash and technical factors could cause the IMF agreement to unravel, precipitating the collapse of the rescue program.

-- Bankers may have difficulty providing a sufficiently large financing package. Without it, Brasilia would have little choice but to declare a moratorium.

-- Any slowdown in the world recovery or sharp rise in interest rates--each 1 percentage point jump adds $700 million to Brazil's annual debt service payments--would quickly exacerbate Brazil's financial woes.

Attachments:

A. An Intelligence Assessment done last October which outlines the background of Brazil's problems.

B. Two recent IEEW articles covering Brazil's current financial situation in greater depth.

C. A NID article assessing pressures for a moratorium.

D. A recent state cable containing Embassy projections for the entire Brazilian economy 1983-84. (Embassy Brasilia sees GDP falling for the rest of 1983 and next year, with inflation possibly falling from the present 150% to 70% in 1984).

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